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SUBJECT: CROSS-STRAIT PASSENGER FLIGHTS MORE THAN DOUBLE

REF: TAIPEI 514

Classified By: AIT Economic Chief Hanscom Smith for reasons 1.4 (b) and (d).

11. (SBU) Summary. On August 31, the number of direct cross-strait passenger flights increased from 108 to 270 per week, pursuant to an April 26 Taiwan-PRC agreement. Under the terms of the agreement, flights from Taiwan's two major airports to any of the 21 approved destinations in the PRC are designated as regular flights, rather than charters, which makes them more accessible to international travelers. All of Taiwan's airlines are operating direct cross-strait routes, and the island's smaller carriers have been saved from bankruptcy by operating flights to the PRC. The estimated demand for the new flights is high. Taiwan's airlines expect the additional routes will be profitable and would welcome further expansion of cross-strait flights. End Summary

Taiwan-PRC Air Agreement Takes Effect

12. (C) On August 31, the number of direct cross-strait passenger flights increased from 108 to 270 per week - 135 from each side of the Strait. The new total represents the allocation stipulated by the agreement on cross-strait passenger and cargo flights signed by Taiwan's Straits Exchange Foundation the PRC's Association for Relations Across the Taiwan Strait on April 26 in Nanjing. The agreement also added six additional destinations in the PRC. In addition, flights to and from Taipei's Taoyuan airport and Kaohsiung airport are designated "regular" flights, while those to and from Taiwan's other airports are still considered charter flights. Airlines can operate regular flights to and from all destinations in China (reftel). Contacts at Taiwan's Civil Aeronautics Administration told us a range of technical and flight safety issues needed to be resolved before the new flights could begin, which is why the new service began only at the end of August.

Direct Cross-Strait Passenger Flights Popular and Profitable

13. (SBU) All five of Taiwan's airlines (China Airlines, EVA Airways, UNI Airways, Mandarin Airlines, and TransAsia Airways) are operating direct cross-strait flights. TransAsia Airways, which has struggled to stay in business over the last ten years, operates flights between Taipei's Sungshan Airport and the PRC's Wuhan. The estimated passenger load factor (PLF) for this route is 90 percent.

Reportedly, in the first seven months of this year, cross-Strait charter flights have earned TransAsia NTD 40 million (USD 1.25 million). Chairman Chen Jer-shiung has stated that cross-Strait passenger service has become the financial mainstay of the airline.

14. (C) Estimated PLF on flights from Taipei to Beijing, Shanghai and Guangzhou are 80-90 percent, while the PLF for new routes to Ningbo and Tianjin are about 70 percent. EVA Airways (EVA) Vice President Danny Ho told us that the PLF on EVA's flights to Beijing and Shanghai consistently exceed 90 percent, and the airline fully expects the 56 cross-Strait flights it operates per day to be collectively profitable. China Airlines (CAL) Senior Vice President Jenny Lee told us that CAL would prefer the number of direct flights to be even higher. CAL Chairman Philip Wei has stated that cross-Strait flights have replaced Taiwan-Hong Kong and Taiwan-Japan routes as leading profit makers for CAL, comprising 10 percent of the airline's earnings.

15. (C) EVA's Ho told us recently that Taiwan's airlines would ultimately like to see an open skies agreement between Taiwan and the PRC. According to Ho, when market forces are allowed to determine the number of flights each airline can operate, and to which destinations, then carriers will earn the maximum possible revenue from direct cross-Strait passenger flights.

Comment

16. (C) Unlike in the past, the August 31 start up of new flight services was not marked by any ceremonies in Taiwan. Reportedly, in the aftermath of Typhoon Morakot, Taiwan officials are sensitive to public criticism of how the Ma administration handled the disaster and they therefore put pressure on the island's airlines to keep the inauguration of the new flights low key. Taiwan officials have made no public statements regarding the lack of celebratory events. However, EVA's VP Ho, emphasizing that he was not involved in the decision process, told us the airline opted not to stage any ceremony "for political reasons." CAL representatives refused to comment on the issue. Local media reported planned celebratory events in several PRC cities were canceled to protest the Dalai Lama's visit to Taiwan. End Comment.

STANTON